ORIGINAL

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA	DOCKET NO. W-01412A-04-0736
IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	DOCKET NO. W-01412A-04-0849

NOTICE OF FILING

Valley Water Utilities Company, by and through its undersigned counsel, hereby provides this Notice of Filing on behalf of the Company of the Rebuttal Testimonies of Robert L. Prince, Ronald L. Kozoman and Thomas J. Bourassa in this proceeding.

Respectfully submitted this 6th day of June 2005.

SALLQUIST & DRUMMOND, P.C.

By: _____
Richard L. Sallquist
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4500 S. Lakeshore Drive, Suite 339
Tempe, AZ 85282
Attorneys for Valley Utilities Water Company, Inc.

93055.00000.172

Original and fifteen copies of the foregoing filed this 6th day of June 2005:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

A copy of the foregoing mailed/hand delivered this 6th day of June 2005, to:

Utilities Division
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1200 West Washington
Phoenix, Arizona 85007

Legal Division
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Phoenix, Arizona 85007

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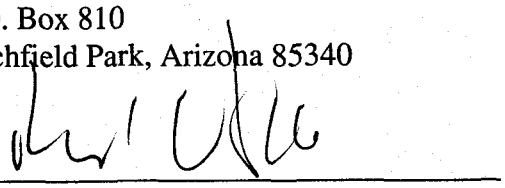

VALLEY WATER UTILITIES COMPANY
DOCKET NOS. W-01412A-04-00736 7 0849

REBUTTAL TESTIMONY
OF
ROBERT L. PRINCE

FILED
JUNE 6,2005

REBUTTAL TESTIMONY OF ROBERT L. PRINCE

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is Robert L. Prince. My business address is 12540 W Bethany Home Road, Litchfield Park, Arizona 85340. I am President of Valley Water Utilities Company.

Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE APPLICANT, VALLEY WATER UTILITIES COMPANY ("VALLEY" OR "COMPANY")?

A. No, I have not.

Q. HAVE YOU REVIEWED THE TESTIMONIES FILED BY STAFF'S WITNESSES IN THIS PROCEEDING?

A. Yes I have.

Q. DO YOU HAVE CONCERNS WITH ANY OF THE STAFF'S RECOMMENDATIONS?

A. Yes I do, and Messrs. Kozoman and Bourassa will address those concerns.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to comment on certain aspects of the Staff's proposal on rate design. Mr. Kozoman will again speak to the technical difficulties the Company has, but I would like to address several practical considerations.

Q. DO YOU BELIEVE THAT THE STAFF RECOMMENDED RATE DESIGN, THAT RESULTS IN A LOWERING OF THE RATES FOR CUSTOMERS CONSUMING LESS THAN 3,000 GALLONS PER MONTH, IS APPROPRIATE FOR THE VALLEY SYSTEM?

Q. Absolutely not. I believe it is not only inappropriate for these customers, but will also cause numerous problems for them and the Company.

Q. WOULD YOU PLEASE SUMMARIZE YOUR CUSTOMER BASE AND THE VARIOUS METER SIZES?

A. As of April, 2005, Valley's residential bill count was as follows: 5/8 X ¾ inch – 257 versus 247 for the test year; ¾ inch – 613 versus 584 for the test year; and 1 inch – 321 versus 258 for the test year. The total meter count for residential meters was 1,192 versus 1,089. The percentage of ¾ inch meters to the total residential count is 51%. Of the 51% (613 meters) 535 of them are in the middle to upper income areas of our service area with the cost of housing ranging from the mid $150,000 to over $400,000. Of this group 400 or 75% are in the three year old Dreaming Summit Subdivision where homes are reselling from $265,000 to over $400,000. This is not where a "life line rate" or inverted rate should be utilized.

Q. WHERE ARE THE 5/8 BY 3/4 INCH METERS LOCATED ON YOUR SYSTEM?.

A. Nearly 100% of the 5/8 X ¾ inch meters are serving mobile homes in parks or very small lots with a much lower income clientele. Assuming all of the ¾ inch meters are placed in the Staff-proposed inverted rate structure, two things will happen. First, there will be no incentive for conservation and consumption will go up causing the unintended consequence of potentially violating the ADEQ mandated GPCD that has been established for Valley. Secondly, with these meters at a lower rate, existing 1-inch customers may demand a downsizing of meter sizes, which would cause a destabilization of cash flow and endless monitoring so as to prevent "over revving" of the smaller meters and doing damage that could substantially impact revenue as well as O&M costs to the Company. The consequences of this type of rate structure are unacceptable to Valley and is not consistent with appropriate rate-making policy for the industry. The Commission should also note the American Water Works Association study on inverted rates and the negative impact to conservation.

Q. ARE THERE OTHER UNWANTED ADVERSE CONSEQUENCES ON THE COMPANY AS A RESULT OF THE PROPOSED REDESIGN?

A. Yes, the Staff at the Commission should be aware that removing the appropriate financial costs from one segment of the community and placing it on another will not sit well with those arbitrarily assigned to carry the burden, and is not an appropriate "wealth transfer" by the Commission. These rates, as designed by Staff, will cause more problems and financial burdens not just for the Company but for the customers and the Commission in resolving complaints and disputes over meter capacity when downsizing requests start appearing.

Q. HOW COULD THIS RATE DESIGN RESULT IN ADVERSE CONSEQUENCES TO THE COMPANY'S CUSTOMERS?

A. Valley is obligated to collect its newly authorized "Arsenic Impact Fees" on all new meters installations. In the event a customer should elect to have a smaller meter installed to

enjoy the "life-line rate", that customer will be assessed the appropriate Arsenic Impact Fee. That, of course, is not revenue to the Company, but is an unintended consequence of this flawed rate design. Secondly, this design results in revenue instability to the Company by reducing revenue. That is not healthy for the Company or its customers, especially this Company with its lower equity position.

Q. WHAT WOULD YOU PROPOSED AS THE APPROPRIATE RATE DESIGN?

A. I strongly believe that at whatever revenue level the Commission authorizes, a rate design similar to that contained in Mr. Kozoman's testimony would be the appropriate design.

Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes it does.

VALLEY WATER UTILITIES COMPANY

DOCKET NOS. W-01412A-04-0736 & 0849

REBUTTAL TESTIMONY OF

RONALD L. KOZOMAN

June 6, 2005

I. INTRODUCTION, PURPOSE AND SUMMARY.

Q. PLEASE STATE YOUR NAME AND ADDRESS?

A. My name is Ronald L. Kozoman and my business address is 1605 W. Mulberry Drive, Phoenix, AZ 85015.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application in this docket.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide opposing testimony in response to the direct filing by Arizona Corporation Commission Utilities Division Staff ("Staff") More specifically, my testimony relates to rate design and the proposed new rates for water for Valley Utilities Water Company.

II. ACC STAFF PROPOSED RATE DESIGN:

Q. WHAT ARE THE PRESENT MONTHLY MINIMUMS AND IS MONTHLY MINIMUMS IS STAFF RECOMMENDING?

A. The present and Staff proposed rates are listed below:

The present monthly minimums are:

Meter Size	Monthly Minimum
5/8 x 3/4 inch	$9.60
3/4 inch	$14.50

1 inch	$24.00
1 1/2 inch	$48.00
2 inch	$77.00
3 inch	$144.00
4 inch	$240.00
6 inch	$480.00

Construction water sold through a 3 inch meter has a monthly minimum of $144.00.

The Staff proposed monthly minimums are:

Meter Size	Monthly Minimum
5/8 x 3/4inch	$11.24
3/4 inch	$16.87
1 inch	$26.10
1 1/2 inch	$56.10
2 inch	$89.94
3 inch	$179.87

4 inch	$281.05
6 inch	$562.10

The percentage increase for the monthly minimums ranges from 17% to approximately 25%. Staff proposes no monthly minimum for construction water sold through 3" meters.

Q. WHAT ARE THE COMMODITY RATES STAFF IS RECOMMENDING?

A. Staff is recommending three tiered rates for the residential customers on 5/8 x 3/4 inch and 3/4 inch, which are $1.50 for the first 3,000 gallons, $2.31 for commodity usage from 3,001 to 10,000, and $2.53 for all usage above 10,000.

Customers on larger meters have just two tiers at $2.31 and $2.53. The commercial 5/8 x 3/4 and 3/4 inch meter has commodity rates of $2.30 and 2.53.

Q. ARE THERE PROBLEMS WITH THE STAFF PROPOSED RATE DESIGN, AND WOULD YOU DISCUSS THE PROBLEMS?

A. Yes there are some problems.

The major problem I have with Staff's proposed rates is that the lifeline or low income commodity rates in the first tier for the residential customers on 5/8 x 3/4 inch and 3/4 inch meters. Staff is proposing the three tier rate for residential customers only, and the first tier is available only for the residential customers on smaller meters. All other customers have a two tier rate design.

Q. WHY ARE YOU CALLING STAFF'S FIRST TIER FOR RESIDENTIAL CUSTOMERS ON 5/8 INCH AND 3/4 INCH METERS A LOW INCOME OR LIFELINE RATE?

A. Because that's what this rate really is. A quick read of American Water Works Association Manual M34, Chapters 1 through 4 spells out what a lifeline or low income rate is. Staff's first tier rate is a lifeline or low income rate. The old saying, if it walks like a duck, quacks like a duck, it probably is a duck, is quite true in this instance.

Q. WELL, WHAT IS A "LIFELINE" RATE?

A. By definition, a lifeline rate is intended to provide a minimum volume of water service at a reduced cost to residential customers that find it difficult to afford water service due to their income levels. In its Manual 34, *Alternative Rates*, at pages 10 through 15, the AWWA provides the following recommendations concerning lifeline rates and similar types of discounted rates for water service:

First, lifeline rates should be offered only to residential customers who meet certain income eligibility requirements. The reason for this recommendation is obvious: discounted rates, such as those proposed by Staff, are contrary to basic cost of service principles and are not economically efficient. Discounted rates produce a subsidy that must be recovered by means of higher rates in other usage blocks. Those customers then pay more than their cost of service.

Second, the AWWA states that lifeline rates and similar types of discounted rates should not be considered unless the local cost of water service is high relative to other,

similar water utilities, or where a significant percentage of residential customers are believed to be unable to afford water service. There is no indication in Mr. Rogers" direct testimony that Staff examined whether these circumstances are present.

Third, the AWWA states that lifeline rates and similar types of discounted rates should not be used in areas where there are water shortages or where water use is a concern. The AWWA states that the use of life-line rates "may encourage greater use among the eligible customers and therefore be inconsistent with the need to reduce water consumption. In this case, the benefits to customers whose water costs might be reduced would have to be weighed against water use concerns." AWWA, M34 at 11. The AWWA also states that these types of discounted rates "provide no conservation or water reduction incentive to those that receive the subsidy. Since water is sold below cost, the pricing incentive to reduce consumption is lessened. The impact on demand should be carefully considered in areas where water supplies are scarce." *Id.* at 13.

Since I have not done a cost of service study in the instant case, I can't prove that water is being sold below cost. But discounting the first tier (3,000 gallons as recommended by Staff) for residential customers on smaller meters will result in the Company experiencing a loss at this level of consumption. I say this based on other companies for which I have prepared a cost of service study.

In this case, although the Company is not facing water supply shortages, it is located within the Phoenix Active Management Area, which was designated by the Legislature as part of the Groundwater Management Act to ensure that water resources are efficiently managed and conserved.

In short, selling water at discount, as Staff proposes, is contrary to public policy.

Q. WHAT'S WRONG WITH OFFERING A LIFELINE OR LOW INCOME RATE?

A. The problem is Staff recommends this lifeline or low income rate to all residential customers on small meters. Lifeline or low income rate should only be provided to customers who can't afford the water rates. Staff has provided no study that all residential customers on smaller meters need a lifeline or low income rate.

The current commodity rate is $1.80. Staff recommends for residential customers on the smaller meters to actually reduce the commodity rate to $1.50. That is not a conservation message. When the operating and maintenance for arsenic treatment are included in rates, customers will be thoroughly confused, as the rate will have to go up. The commodity rate was $1.80, then the commodity rate is reduced to $1.50, finally, the commodity rate will have to be raised to accommodate the arsenic operating and maintenance costs. What kind of message is that to the Company's customers? (No other class of customer is recommended for this lower first tier.) I am of the opinion that it is not good rate making procedure or policy to lower rates when the overall dollar amount of rates are being raised.

Q. ARE THERE OTHER PROBLEMS WITH THE STAFF RECOMMENDED RATE DESIGN?

A. Yes. Another problem with Staff's rate is the rate for the commercial class on a 5/8 inch meter. The rate of $2.30 differs from all other classes, which pay $2.31 for this same tier rate. Charging a different price to one specific customer class, is quite unusual. Normally when a cost of service study is completed, one derives a single cost per 1,000 gallons for all the water, unless specific circumstances are present. There is no specific circumstance in the instant case that I am aware of. Staff proposes different break points based on meter size.

Additionally, I can't duplicate Staff's revenue requirement of $957,511. Inputting Staff's rates, I derive only $950,809.

I do not disagree with Staff's proposal to set break over points based on meter size. Under Staff's rate design, the larger the meter, the higher the break-over point.

Q. WHAT ARE STAFF'S PROPOSED BREAK-OVER POINTS?

A. The break-over point are listed below.

	Break-over Point	
	One	Two
5/8" Inch Residential. Customers	3,000	7,000
3/4 Inch Residential Customers	10,000	10,000
5/8 Inch Commercial Customers	18,000	

3 /4 Inch Commercial Customers	18,000
1 Inch Res.and Comm. Customers	50,359
1 1/2 Inch Res.and Comm. Customers	126,054
2 Inch Res. and Comm. Customers	151,256
3 Inch Res. and Comm. Customers	403,274
4 Inch Res. and Comm. Customers	453,722
6 Inch Res. and Comm. Customers	1,260,313

III. Company's Rate DESIGN.

Valley Utility Water Company's Rate Design Proposal.

Q. WOULD YOU PLEASE SUMMARIZE THE COMPANY'S PROPOSED RATE DESIGN FOR WATER?

A. Yes. The Company is still proposing a rate design based on three tier rates, applicable to all customers except construction water. In my opinion, one or two customer classes should not get the benefit of discounted rates.

Q. WHAT ARE THE PRESENT COMMODITY RATES FOR VALLEY UTILTIES WATER COMPANY?

A. The commodity charge per 1,000 gallons for Valley Utilities Water Company is $1.80 per 1,000 gallons for the first 25,000 gallons, and $2.20 per 1,000 gallons for usage above 25,000. The rate for construction water is $2.60 per 1,000 gallons, regardless of usage.

Q. WHAT ARE THE PROPOSED REBUTTAL RATES?

A. The monthly minimum charges for the proposed rates are:

Meter Size	Monthly Minimum	Gallons Included in Monthly Minimum
5/8 x 3/4	$ 10.56	0
3/4	$ 15.95	0
1	$ 26.40	0
1 1/2	$ 52.80	0
2	$ 84.70	0
3	$ 158.40	0
4	$ 264.00	0
6	$ 528.00	0

Construction water through a 3 inch meter will have a monthly minimum of $158.40.

The above rates represent a 10% increase over existing monthly minimums.

The commodity charge per 1,000 gallons is $2.01 per 1,000 gallons for the first tier rates, $2.457 per 1,000 gallons for the second tier rate, and $2.774 for the third tier, for all customers except the construction water sales. Construction water is priced at $2.94 per 1,000 gallons.

The commodity rates have been increased approximately 12% for tiers one and two, and approximately 25% for tier three.

Q. WHAT ARE THE COMPANY'S PROPOSED BREAK OVER POINTS?

A. The break over points are the same as requested in the Direct Filing. The break over points are listed below:

	Break Over Point	
	One	Two
5/8 x 3/4 Inch Meter	8,000	12,000
3/4 Inch Meter	12,000	18,000
1 Inch Meter	20,000	30,000
1 1/2 Inch Meter	40,000	60,800
2 Inch Meter	64,000	96,000
3 Inch Meter	128,000	192,000
4 Inch Meter	200,000	300,000
6 Inch Meter	400,000	600,000.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Present and Proposed Rates
Rebuttal

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Kozoman

Line No.		Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**			
2	**Residential and Commercial**	Rounded to two (2) decimal Places		
3	5/8 x 3/4 Inch	$ 9.60	$ 10.56	10.00%
4	3/4 Inch	14.50	15.95	10.00%
5	1 Inch	24.00	26.40	10.00%
6	1 1/2 Inch	48.00	52.80	10.00%
7	2 Inch	77.00	84.70	10.00%
8	3 Inch	144.00	158.40	10.00%
9	4 Inch	240.00	264.00	10.00%
10	6 Inch	480.00	528.00	10.00%
11				
12	Construction (3 inch meter)	144.00	158.40	10.00%
13				
14	**Gallons In Minimum**			
15	Residential, Commecial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	**Gallons for Rate Tiers**			
21	**Tier 1: (Gallon upper limit,)**			
22	5/8 Inch	25,000	8,000	
23	3/4 Inch	25,000	12,000	
24	1 Inch	25,000	20,000	
25	1 1/2 Inch	25,000	40,000	
26	2 Inch	25,000	64,000	
27	3 Inch	25,000	128,000	
28	4 Inch	25,000	200,000	
29	6 Inch	25,000	400,000	
30	**Tier 2: (Gallons upper limit, 150% of Tier 1)**			
31	5/8 Inch	999,999,999	12,000	
32	3/4 Inch	999,999,999	18,000	
33	1 Inch	999,999,999	30,000	
34	1 1/2 Inch	999,999,999	60,800	
35	2 Inch	999,999,999	96,000	
36	3 Inch	999,999,999	192,000	
37	4 Inch	999,999,999	300,000	
38	6 Inch	999,999,999	600,000	
39	**Tier 3: (Gallon over)**			
40	All	999,999,999	All Gallons	
41			in Excess	
42			of tier 2 above	
43	Construction Water (All)	999,999,999	999,999,999	
44				
45				
46		**Present**	**Proposed**	**Percent**
47	**Residential, Commercial, Industrial**	**Rates**	**Rates**	**Change**
48	**Commodity Rates**	Rounded to three (3) decimal Places		
49	First Tier	$ 1.80	$ 2.010	11.67%
50	Second Tier	2.20	2.457	11.68%
51	Third Tier	2.20	2.744	24.73%
52	Fourth Tier	2.20	2.744	24.73%
53				
54	Construction	2.60	2.904	11.69%
55				
56				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Analysis of Revenue by Detailed Class
Rebuttal

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Kozoman

Line No.	Meter Size, Class		(a) Average Number of Customers at 12/31/2003	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential	247	9,264	$ 26.28	$ 29.75	$ 3.47	13.21%
2	3/4 Inch	Residential	584	10,243	32.94	36.54	3.60	10.93%
3	1 Inch	Residential	258	20,040	60.07	66.70	6.63	11.03%
4	1.5 Inch	Residential	-					
5		Subtotal	1,089					
6								
7	5/8 Inch	Commercial	7	3,370	$ 15.67	$ 17.33	$ 1.67	10.65%
8	3/4 Inch	Commercial	-					
9	1 Inch	Commercial	11	38,424	98.53	114.29	15.75	15.99%
10	1.5 Inch	Commercial	6	52,593	153.71	164.14	10.44	6.79%
11	2 Inch	Commercial	45	158,358	415.39	463.07	47.69	11.48%
12	3 Inch	Construction	4	56,780	291.63	323.29	31.66	10.86%
13		Subtotal	73					
14								
15								
16								
17		Totals	1,162					
18								
19								
20			(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Present and Proposed Rates
Rebuttal

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Kozoman

Line No.		Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**			
2	**Residential and Commercial**	Rounded to two (2) decimal Places		
3	5/8 x 3/4 Inch	$ 9.60	$ 10.56	10.00%
4	3/4 Inch	14.50	15.95	10.00%
5	1 Inch	24.00	26.40	10.00%
6	1 1/2 Inch	48.00	52.80	10.00%
7	2 Inch	77.00	84.70	10.00%
8	3 Inch	144.00	158.40	10.00%
9	4 Inch	240.00	264.00	10.00%
10	6 Inch	480.00	528.00	10.00%
11				
12	Construction (3 inch meter)	144.00	158.40	10.00%
13				
14	**Gallons In Minimum**			
15	Residential, Commecial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	**Gallons for Rate Tiers**			
21	**Tier 1: (Gallon upper limit,)**			
22	5/8 Inch	25,000	8,000	
23	3/4 Inch	25,000	12,000	
24	1 Inch	25,000	20,000	
25	1 1/2 Inch	25,000	40,000	
26	2 Inch	25,000	64,000	
27	3 Inch	25,000	128,000	
28	4 Inch	25,000	200,000	
29	6 Inch	25,000	400,000	
30	**Tier 2: (Gallons upper limit, 150% of Tier 1)**			
31	5/8 Inch	999,999,999	12,000	
32	3/4 Inch	999,999,999	18,000	
33	1 Inch	999,999,999	30,000	
34	1 1/2 Inch	999,999,999	60,800	
35	2 Inch	999,999,999	96,000	
36	3 Inch	999,999,999	192,000	
37	4 Inch	999,999,999	300,000	
38	6 Inch	999,999,999	600,000	
39	**Tier 3: (Gallon over)**			
40	All	999,999,999	All Gallons	
41			in Excess	
42			of tier 2 above	
43	Construction Water (All)	999,999,999	999,999,999	
44				
45				
46		**Present**	**Proposed**	**Percent**
47	**Residential, Commercial, Industrial**	**Rates**	**Rates**	**Change**
48	**Commodity Rates**	Rounded to three (3) decimal Places		
49	First Tier	$ 1.80	$ 2.010	11.67%
50	Second Tier	2.20	2.457	11.68%
51	Third Tier	2.20	2.744	24.73%
52	Fourth Tier	2.20	2.744	24.73%
53				
54	Construction	2.60	2.904	11.69%
55				
56				

VALLEY WATER UTILITIES COMPANY

DOCKET NOS. W-01412A-04-0736 & 0849

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

June 6, 2005

I. INTRODUCTION, PURPOSE AND SUMMARY.

Q. PLEASE STATE YOUR NAME AND ADDRESS?

A. My name is Thomas J. Bourassa and my business address is 139 W. Wood Drive, Phoenix, AZ 85029.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application in this docket.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide rebuttal testimony in response to the direct filings by Arizona Corporation Commission Utilities Division Staff ("Staff"). More specifically, my rebuttal testimony relates to rate base and income statement for Valley Utilities Water Company ("Company" or "Valley").

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REBUTTAL TESTIMONY FOR THE COMPANY?

A. The Company is requesting an increase in revenues of $116,952, an increase of 14.09% for a total revenue requirement of $944,162.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT FILING?

A. In the direct filing, the Company requested twp step increase. In Step 1, the Company requested and increase in revenues of $100,784, an increase of 12.18% for a total Step 1 revenue requirement of $928,349. In Step 2, the Company requested and increase in revenues of $402,669, an increase of 43.37% over the

Step 1 revenue requirement for a total revenue requirement of $1,331,018. The total (combined Step 1 and Step 2) requested increase over adjusted test year revenues was $503,453, and increase of 60.84% for a total revenue requirement of $1,331,081.

Q. WHY IS THE REVENUE REQUIREMENT IN THE REBUTTAL FILING DIFFERENT THAN IN THE DIRECT FILING?

A. The revenue requirement has changed for a three primary reasons. First, the Company has dropped its request for a two step increase. Second, the Company has adopted a number of adjustments recommended by Staff including Staff's proposal for an arsenic recovery surcharge mechanism ("ARSM") covering the debt service on arsenic treatment plant. Third, the Company proposes a surcharge mechanism for recovery of the arsenic treatment operating and maintenance costs. As a result, the Company's proposed operating expenses (combined Step 1 and Step 2) have decreased approximately $300,000 compared to the adjusted test year expense of $1,113,666 in Step 2.

Similarly, due to these various adjustments, Valley's rebuttal Original Cost Rate Base ("OCRB"), has decreased. The OCRB decreased by $1,787,442 from the direct filing Step 2 OCRB to $(543,488) primarily due to the Company eliminating the request for rate base treatment of the new arsenic treatment plant.

II. <u>REVENUE REQUIREMENT</u>.

Q. WHAT ARE THE REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF?

A. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct*	$1,331,081	$ 100,784	60.84%
Staff	$ 957,510	$ 129,946	15.70%
Company Rebuttal	$ 944,162	$ 116,597	14.09%

* 2nd Step of Two Step Proposal

Q. HOW WAS THE INCREASE IN THE REVENUE REQUIREMENT DETERMINED?

A. The Company's calculation of the revenue requirement is shown on rebuttal schedule A-1. Because the rate base is negative, the Company is requesting a revenue requirement based on a 10 percent operating margin. This is the minimum margin the Company considers sufficient for insuring the Company meets its operating needs and to attract capital. It should be noted, however, that the proposed revenue requirement does not include the operating and maintenance costs for arsenic treatment. I will discuss the impacts of arsenic remediation later in my testimony.

Q. WHAT KINDS ON FINANCIAL NEEDS DOES THE COMPANY HAVE A GOING FORWARD BASIS?

A. They include the ability to pay its operating expenses, fund capital improvements not funded by advances in aid of construction ("AIAC") and contributions in aid of construction ("CIAC"), refund AIAC, refund customer meter deposits, pay for unexpected changes in operating expenses or unplanned capital improvements, meet its debt obligations, and maintain an ability to attract new capital (debt and/or equity).

Q. DOES THE REVENUE REQUIREMENT INCLUDE ARSENIC OPERATING AND MAINTNANCE COSTS?

A. No. The Company expects arsenic and maintenance costs to be $216,600 annually. These costs are not included in the revenue requirement because the Company proposes an arsenic operating and maintenance recovery surcharge mechanism ("AOMRSM"). I will discuss the AOMRSM in later in my testimony.

Q. DOES STAFF'S RECOMMENDED REVNUE REQUIREMENT INCLUDE ARSENIC OPERATING AND MAINTENANCE COSTS?

A. No. Staff readily admits their revenue requirement does not include arsenic operating and maintenance costs. *See* Response to Company Data Request 2 attached at Exhibit 1.

Q. DOES THE REVENUE REQUIREMENT INCLUDE DEPRECIATION ON THE NEW ARSENIC TREATMENT PLANT?

A. No. Further, the AOMRSM proposed by the Company does not include depreciation expense. Depreciation expense on the new arsenic treatment plant is expected to be nearly $63,000 per year.

Q. DOES THE REVENUE REQUIREMENT PROVIDE TO SUFFICIENT CASH FLOWS TO SERVICE THE PROPOSED LOAN ON THE NEW ARSENIC TREATMENT PLANT?

A. No. Neither the revenue requirement of the Company nor Staff provides sufficient revenues. Without recovery of the arsenic operating and maintenance costs, the Company will not meet its debt obligations and refund obligations on its AIAC

and meter deposits. Staff appears to have recognized this and has proposed the Commission consider an ARSM to cover the loan principle and interest payments for the proposed loan from the Water Infrastructure Finance Authority ("WIFA"), as well as a gross-up for taxes. See Direct Testimony of Dennis Rogers (Rogers Dt.) at 27. The Company agrees with the need for an ARSM. I will discuss the ARSM further later in my testimony.

III. RATE BASE.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. The rate bases proposed by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct*	$1,243,934	$1,243,934
Staff	$(539,804)	$(539,804)
Company Rebuttal	$(543,488)	$(543,488)

* 2nd Step of Two Step Proposal

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A. The Company's rebuttal rate base adjustments to OCRB are shown on rebuttal schedule B-2, page 2. Rebuttal schedule B-2, page 1, shows the rebuttal OCRB. Since the Company no longer proposes a two step increase, only one B-2 schedule is shown. As you will recall, the Company's step 2 rate base included the costs of

the new arsenic treatment plant as well as an adjustment to accumulated depreciation and accumulated amortization of CIAC.

The Company accepts Staff recommendation to capitalize $775 of miscellaneous expense for a company sign. B-2 adjustment 1 to plant in service reflects this adjustment.

The Company's B-2 adjustment 2 adjusts working capital to the rebuttal calculated working capital shown on rebuttal schedule B-5.

IV. INCOME STATEMENT.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A. The Company rebuttal adjustments are detailed on rebuttal schedule C-2, pages 1-8. The rebuttal income statement with adjustments is shown on rebuttal schedule C-1. The Company has accepted all of Staff's expense adjustments. Some adjustments are slightly different than Staff's and are based on the Company's calculations. The slight differences are in depreciation expense, property tax expense, and income tax expense.

In rebuttal adjustment number one, the Company proposes to annualize depreciation expense including capitalized expenses for a sign. Depreciation expense has increased slightly from the Company's direct filing due to the proposed increased to plant in service. Depreciation expense between the Company and Staff differ by a few dollars.

Q. PLEASE CONTINUE.

A. In rebuttal adjustment number two, the Company proposes to adjust property taxes to reflect the increase in Company's proposed rebuttal revenues. Property tax has increased $444 over the direct filing and is lower than Staff's proposed amount by approximately $40. The reason for this is Staff's revenue requirement is higher than the Company's by approximately $12,000.

Rebuttal adjustment three reflects the Company's adoption of Staff's recommended adjustment to reduce repairs and maintenance by $1,113.

Rebuttal adjustment four reflects the Company's adoption of Staff's recommended adjustment to increase water testing expense by $2,415.

Rebuttal adjustment five reflects the Company's adoption of Staff's recommended adjustment to reduce transportation expense by $12,799.

Rebuttal adjustment six reflects the Company's adoption of Staff's recommended adjustment to reduce miscellaneous expense by $17,076.

Rebuttal adjustment seven removes interest expense on the proposed WIFA debt for the arsenic treatment plant to eliminate its affect on income taxes.

Rebuttal adjustment eight increase income taxes to reflect the Company's rebuttal proposed income taxes. I should note the income taxes computed by Staff appears to have an error and are overstated.

V. ARSENIC RECOVERY SURCHARGE MECHANISM

Q. DOES STAFF SUPPORT AN ARSENIC RECOVERY SURCHARGE MECHANISM?

A. Yes. Staff supports an arsenic recovery surcharge mechanism ("ARSM"). However, Staff does not propose the ARSM be approved in this filing. Staff

suggests the Company be required to make subsequent filing for consideration by the Commission. *See* Direct Testimony of Dennis R. Rogers ("Rogers Dt.") at 27.

Q. PLEASE EXPLAIN THE ARSENIC RECOVERY SURCHARGE MECHANISM PROPOSED BY STAFF AND ADOPTED BY THE COMPANY?

A. The ARSM is designed to recover the principle and interest on the company's proposed WIFA loan. It includes a gross up for income taxes because the surcharge would be considered revenue. Without the gross-up for income taxes, the ARSM not provide the cash flow to pay the principle and interest.

Q. DOES THE COMPANY SUPPORT AN ARSM?

A. Yes. Staff's calculated incremental revenue required to service the WIFA loan is shown on Staff schedule DRR-20. The Company agrees with this approach. However, unlike Staff, the Company believes the ARSM can be approved now in form and does not require a subsequent filing by the Company for consideration by the Commission for approval. The Company does believe that a subsequent filing providing the final details of the revenue requirement for principle and interest obligations on the WIFA loan and incremental income taxes is necessary.

Q. HOW WOULD THE ARSM WORK?

A. Each year, the incremental revenue requirement will be divided by the total equivalent 5/8 inch meter customers at the end of the prior year. This will result in the annual 5/8 inch meter ARSM surcharge amount. This result will then be divided by 12 to derive the monthly 5/8 inch meter ARSM surcharge amount.. For larger meters, the 5/8 inch monthly ARSM surcharge amount will be

multiplied by the meter capacity factor to determine the charge for that meter size. The ARSM will be shown as a separate charge on the customer bill.

The Company will maintain a balancing account to insure the Company does not over or under collect. Each year the Company will provide Staff a detailed calculation of the monthly surcharge as well as provide an accounting of the amount collected during the year.

Q. HAS THE COMPANY PREPARED CALCULATIONS BASED ON THE TEST YEAR?

A. Yes. Rebuttal exhibit 2, attached hereto, shows the calculations and the results based on the proposed WIFA loan using the test year end number of customers. The monthly arsenic recovery surcharge will be $8.76 for a 5/8 inch meter based on the test year end number of customers

Q. HOW WILL THIS IMPACT THE AVERAGE 5/8 INCH CUSTOMER BILL?

A. Rebuttal exhibit 3 shows the average 5/8 inch customer bill will increase by 37.94% over present rates as a result of the ARSM. The impacts on other meter sizes are also shown in the exhibit.

Q. WHY DOES THE CALCULATION OF THE SURHARGE NEED TO BE PERFORMED ANNUALLY?

A. Because of the need to adjust for customer growth. Growth will cause the surcharge amount to decrease from year to year because the incremental revenue requirement will be spread over a larger number of customers.

Q. HOW MUCH CUSTOMER GROWTH HAS OCCURRED SINCE THE

END OF THE TEST YEAR?

A. Approximately 100 customers. This reflects an annual growth of less than 10 percent.

Q. HAS THE WIFA LOAN BEEN FINALIZED?

A. No. The financing application for the WIFA loan has been consolidated in this docket and requires Commission approval. Thus, the Company will provide final calculations of the incremental revenue increase to Staff as well as an initial calculation of the annual and monthly surcharge by meter size subsequent to approval of the ARSM in this docket.

Q. IF THE COMPANY IS NOT ALLOWED RECOVERY OF THE DEBT SERVICE COSTS ON WIFA LOAN, WILL THE COMPANY BE ABLE TO MEET ITS OBLIGATIONS?

A. No. As I have discussed, the annual arsenic treatment costs are projected to be $216,600 annually. The Company will not only have insufficient cash to service the WIFA debt, but it will fall out of compliance with the WIFA requirements for a minimum debt service coverage of 1.2.

Rebuttal Exhibit 4, page 1, attached hereto, demonstrates that under the Company's proposed revenue requirement and without recovery of the projected arsenic O&M costs, the debt service coverage with drop from 1.38 to .28. A DSC below 1.00 indicates the Company cannot service its debt obligations.

Q. WHY HAVE YOU INCLUDED REFUNDS OF AIAC IN YOUR DEBT SERVICE COVERAGE CALCULATIONS?

A. Because this is a form of debt obligation to the Company. The exhibit shows the

DSC will still be inadequate even if AIAC refunds are ignored. My understanding is that lenders do consider AIAC refund obligations in determining financial eligibility. Never-the-less, in either case, the Company will be in violation of the WIFA loan requirements.

Q. PLEASE CONTINUE.

A. Rebuttal Exhibit 4, page 2 also demonstrates the Staff proposed revenue requirement fails to provide sufficient cash flow. Without recovery of the projected arsenic O&M costs, the debt service coverage with drop from 1.45 to .34.

Q. AREN'T THE ARSENIC O&M COSTS PROJECTED COSTS?

A. Yes. However, Staff has found them to be a reasonable estimate. *See* Direct Testimony of Marlin Scott Jr. ("Scott Dt.") at 2-3 of EXHIBIT MSJ-B. Thus, my analysis is reasonable. Even of the actual O&M costs are half of the projected amount, the Company would not be able to meet its debt obligations. Rebuttal Exhibit 5, page 1, attached hereto, demonstrates that under the Company's proposed revenue requirement and without recovery of the half of the projected arsenic O&M costs, the debt service coverage with drop from 1.38 to .83. Rebuttal Exhibit 5, page 2, also demonstrates the Staff proposed revenue requirement fails to provide sufficient cash flow even at half the projected arsenic O&M costs. Without recovery of the projected arsenic O&M costs, the debt service coverage with drop from 1.45 to .90.

Q. WHAT DO YOU CONCLUDE FROM THE ANALYSIS SHOWN IN REBUTTAL EXHIBITS 4 AND 5?

A. The arsenic operating and maintenance costs cannot simply be ignored and the ARSM is required to afford the Company an opportunity to meet its debt obligations.

Q. IS THERE ANY REASON TO DELAY APPROVAL OF THE ARSM TO A SUBSEQUENT FILING?

A. No. The method of determining the surcharge amount is specific. While the final WIFA loan has not been finalized, the financing application seeks approval of a maximum $1,926,100. In addition, the number of customers has increased from the end of the test year. Thus, the Company has provided the maximum impact of the ARSM for consideration. The Company would provide its initial calculations to Staff for review before implementing the surcharge.

Staff admits the WIFA financing is necessary and the only course of action for the Company in addressing its arsenic treatment issues and Staff appears to believe that if the ARSM is approved, the Company will have sufficient cash flows in the future to meet its obligations. *See* Rogers Dt. at 26.

Q. DO YOU AGREE WITH STAFF?

A. I agree the approval of the ARSM is necessary and should be approved. I do not agree that approval of the ARSM will solve the issue of dealing with the arsenic operating and maintenance costs which will likely cause net losses and provide insufficient cash flows for operating expenses.

Q. HASN'T THE COMPANY APPLIED FOR A HOOK-UP FEE ("HUF") TO HELP FUND THE NEW ARSENIC TREATMENT PLANT?

A. Yes. These funds could be used to offset the incremental revenue requirement

and thus lower the ARSM. This could be done annually. The problem with dependence upon the hook-up fee ("HUF") is that it is not a predictable funding source. Further, if additional arsenic treatment plant is needed to handle customer growth, the HUF should first be allocated to the additional plant and any funds left over should offset the incremental revenue requirement.

Q. CAN THE HUF BE USED FOR OPERATING EXPENSES?

A. No. The HUF can only to be used for plant, not operating expenses.

VI. ARSENIC OPERATING AND MAINTENANCE RECOVERY SURCHARGE MECHANISM

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSAL FOR AN ARSENIC OPERATING AND MAINTENANCE RECOVERY SURCHARGE MECHANISM.

A. The Company proposes an arsenic operating and maintenance recovery surcharge mechanism ("AOMRSM") to recover costs associated with arsenic remediation. As I have testified, the projected amounts are over $216,000. However, as I have acknowledged, these costs are projected. The Company believes a surcharge mechanism is the best mechanism to recover these costs since a surcharge mechanism, by design, will only allow the Company to recover actual costs.

Q. HOW WOULD THE AOMRSM WORK?

A. The Company would determine a cost per 1,000 gallons by dividing the actual arsenic O&M costs for the year by the annual gallons sold (in 1,000 gallons). The total surcharge on the monthly customer bill will be the product of the surcharge per 1,000 gallons times the customer's monthly water usage (in 1,000

gallons) and will be shown separately on the customer's bill.

The Company would maintain a balancing account to insure the Company did not over or under collect. Each year the Company will provide Staff a detailed calculation of the surcharge as well as provide an accounting of the amount collected during the year.

Q. HAS THE COMPANY PREPARED CALCUALTIONS SHOWING THE IMPACT OF THE AOMRSM?

A. Yes. Yes. Rebuttal Exhibit 6, attached hereto, shows the calculations. The AOMSM charge per 1,000 will be $0.84 per 1,000 gallons based on the test year gallons sold and using the projected $216,600 arsenic O&M costs. As shown on rebuttal exhibit 6, the impact on an average 5/8 inch customer bill will be $7.77 , for a combined increase of 42.94% over present rates. As shown on rebuttal exhibit 3, the total impact of the ARSM and the AOMRSM on an average 5/8 inch customer bill will be $14.23 ($6.46 plus $7.77), for a combined increase of 67.55%.

Q. DOES THE COMPANY NEED THE AOMSM IF THE ARSM IS APPROVED?

A. Yes. The Company will experience net losses if the actual arsenic O&M expenses exceed $160,000 annually. Current estimates are over 216,000 annually. Staff has recommended the Company institute a plan that would produce a positive equity position by December 31, 2010. *See* Rogers Dt at 20. The denial of the AOMRSM is likely to sink the Company into a greater negative equity position. Exhibit 7, attached hereto, illustrates the financial impact of arsenic operating and

maintenance costs. As the exhibit shows, the net loss will be over $57,000.

Even if the actual arsenic O&M costs are less than $160,000 annually, the Company will experience only marginal improvements in its equity position which it cannot afford since equity at the end of the test year was negative by over $413,000.

Q. IT APPEARS EXHBIT 6 SHOWS THE OMPANY WILL HAVE A DSC OF 1.20 EVEN WITHOUT RECOVER OF THE ARSENIC O&M COSTS, IS THAT CORRECT?

A. Yes. However, without recovery of the arsenic O&M costs, the company will be ill equiped to handle any unexpected changes in its operating expenses. A DSC on the cusp of the WIFA loan requirements does not leave much room for error.

Q. DO YOU HAVE ANY OTHER COMMENTS?

A. Yes. The Company should not be denied recovery of expenses it incurs for the benefit of its ratepayers.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

ARIZONA CORPORATION COMMISSION STAFF'S
RESPONSE TO VALLEY UTILITIES WATER COMPANY, INC.'S
DATA REQUEST NO. 1
DOCKET NOS. WS-01412A-04-0736 & WS-01412A-04-0849.
May 25, 2005

1. Q. Admit or deny the arsenic O&M costs of $216,600 proposed by the Company were found to be reasonable by Staff.

   A. Staff found the Company's proposed arsenic O&M costs of $216,000 to be a reasonable projection of arsenic O&M costs. Response: Dennis Rogers

2. Q. Please identify wherein the Staff's direct testimony and/or schedules, the $216,000 or arsenic O&M costs are included in operating expenses and the revenue requirement proposed by Staff.

   A. Staff did not include arsenic O&M costs in its recommended revenue requirement. Response: Dennis Rogers

3. Q. Admit or deny the Staff recommended revenue requirement does not include recovery of arsenic O&M costs.

   A. Refer to response no. 2. Response: Dennis Rogers

4. Q. Admit or deny the Staff recommendations for the arsenic surcharge recovery mechanism do not include recovery of the arsenic O&M costs.

   A. Staff's recommended arsenic surcharge recovery mechanism does not include a provision for recovery of arsenic O&M costs. Response: Dennis Rogers

5. Q. Please explain how the Company can meet Staff's recommendation to increase the equity position to 40 percent of total capital without recovery of the arsenic O&M costs in rates.

   A. Staff expects the Company to develop a capital plan that is consistent with all reasonable operating and management projects. Response: Dennis Rogers

6. Q. Admit of deny based on Staff's recommended revenue requirement and operating income, without recovery of the arsenic O&M costs, the equity position of the Company will not increase, but rather it will decrease.

   A. Staff cannot predict future outcomes for the Company's equity position. Response: Dennis Rogers

7. Q. Please provide your workpapers in electronic format. Please provide two sets. One for Mr. Bourassa and one for Mr. Kozoman.

   A. Two data disks are attached. Response: Dennis Rogers

EXHIBIT 1

Valley Utilities Water Company
Calculation of Arsenic Recovery Surcharge Mechanism (ARSM)

Exhibit 2
Witness: Bourassa

Line No.		
1	Prinicple Payment (1)	$ 57,539
2	Gross Revenue Conversion factor (2)	1.4495
3	Revenue Required to cover the Principle (1) times (2) equals (3)	$ 83,403
4	Interest Payment (4)	94,998
5		
6	Total Increase in Revenue Requirement (3) plus (4) euals (5)	$ 178,401

Meter Size	# of Customers at TY End	AWWA Capacity Factor	Equivalent # of 5/8 Inch Customers
5/8 Inch	250	1.00	250.00
3/4 Inch	602	1.50	903.00
1 Inch	282	2.50	705.00
1 1/2 Inch	6	5.00	30.00
2 Inch	46	8.00	368.00
2 Inch	3	15.00	45.00
Total (6)	1,189		2,301.00

Annual Arsenic Recovery Surcharge [(5) divided by (6) equals (7)]	$ 77.53
Monthly Arsenic Recovery Surcharge [(7) divided by 12 (rounded)]	$ 6.46

Arsenic Recovery Surcharge by Meter Size

Meter Size	Equivalent 5/8 Inch Surcharge	AWWA Capacity Factor	Arsenic Recovery Surcharge
5/8 Inch	$ 6.46	1.00	$ 6.46
3/4 Inch	6.46	1.50	9.69
1 Inch	6.46	2.50	16.15
1 1/2 Inch	6.46	5.00	32.30
2 Inch	6.46	8.00	51.68
3 Inch	6.46	15.00	96.90

Valley Utilities Water Company
Analysis of Impact of ARSM on Average Bill

Exhibit 3
Witness: Bourassa

Line No.	Meter Size	Class	Average Use	Present Rates	Proposed Rates	% Increase	ARSM (1)	Proposed Bill With ARSM	% Increase	AOMRSM (2)	Proposed Bill With ARSM and AOMRSM	% Increase
1												
2												
3												
4												
5	5/8 Inch	Residential	9,251	$ 26.25	$ 29.75	13.33%	$ 6.46	$ 36.21	37.94%	$ 7.77	$ 43.98	67.55%
6	3/4 Inch	Residential	10,134	32.74	36.54	11.61%	9.69	46.23	41.20%	8.51	54.74	67.20%
7	1 Inch	Residential	19,749	59.55	66.70	12.01%	16.15	82.85	39.13%	16.59	99.44	66.98%
8												
9												
10	5/8 Inch	Commercial	3,369	15.66	17.33	10.66%	6.46	23.79	51.92%	2.83	26.62	69.99%
11	1 Inch	Commercial	38,207	98.05	114.29	16.56%	16.15	130.44	33.03%	32.09	162.53	65.77%
12	1 1/2 Inch	Commercial	52,593	153.70	164.14	6.79%	32.30	196.44	27.81%	44.18	240.62	56.55%
13	2 Inch	Commercial	158,299	415.26	463.07	11.51%	51.68	514.75	23.96%	132.97	647.72	55.98%
14												
15	(1) Arsenic Recovery Surcharge Mechanism for receovery of debt service on WIFA loan.											
16	(2) Arsenic Operating and Maintenance Recovery Surcharge Mechanism. Commodity cost per 1,000 gallons is								$ 0.84			
17												

Valley Utilities Water Company
Financial Analysis
Using Company Proposed Increase without ARSM

Exhibit 4
Witness: Bourassa
Page 1

Line No.		Company Proposed	Projected Arsenic O&M Expense Impacts	Company Proposed With Arsenic O&M
1				
2				
3	Operating Revenues	$ 944,162		$ 944,162
4				
5	Operating Expenses	$ 673,758	$ 216,600	$ 890,358
6	Depreciation & Amortization	133,545	62,724	196,269
7	Income Taxes	42,442	(42,392)	50
8	Operating Income	$ 94,416		$ (142,516)
9				
10	**Debt Service Coverage ("DSC")**			
11				
12	Operating Income	$ 94,416		$ (142,516)
13	Depreciation & Amortization	133,545		196,269
14	Income Taxes	42,442		50
15	Total	$ 270,403		$ 53,803
16				
17				
18	Interest Expense	$ 94,998		$ 94,998
19	Repayment of Principle	57,539		57,539
20	Refunds of AIAC during TY	43,000		43,000
21	Total Debt Service	$ 195,537		$ 195,537
22				
23	DSC	1.38		0.28
24				
25	DSC	1.77		0.35
26	(without consideration of AIAC refunds)			
27				

Valley Utilities Water Company
Financial Analysis
Using Staff Proposed Increase without ARSM

Exhibit 4
Witness: Bourassa
Page 2

Line No.		Staff Proposed	Projected Arsenic O&M Expense Impacts	Staff Proposed With Arsenic O&M
1				
2				
3	Operating Revenues	$ 957,511		$ 957,511
4				
5	Operating Expenses	$ 673,955	$ 216,600	$ 890,555
6	Depreciation & Amortization	133,543	62,724	196,267
7	Income Taxes*	54,262	(54,212)	50
8	Operating Income	$ 95,751		$ (129,361)
9				
10	**Debt Service Coverage ("DSC")**			
11				
12	Operating Income	$ 95,751		$ (129,361)
13	Depreciation & Amortization	133,543		196,267
14	Income Taxes	54,262		50
15	Total	$ 283,556		$ 66,956
16				
17				
18	Interest Expense	$ 94,998		$ 94,998
19	Repayment of Principle	57,539		57,539
20	Refunds of AIAC during TY	43,000		43,000
21	Total Debt Service	$ 195,537		$ 195,537
22				
23	DSC	1.45		0.34
24				
25	DSC	1.86		0.44
26	(without consideration of AIAC refunds)			
27				

Valley Utilities Water Company
Financial Analysis
Using Company Proposed Increase without ARSM

Exhibit 5
Witness: Bourassa
Page 1

Line No.		Company Proposed	Projected Arsenic O&M Expense Impacts	Company Proposed With Arsenic O&M
1				
2				
3	Operating Revenues	$ 944,162		$ 944,162
4				
5	Operating Expenses	$ 673,758	$ 108,300	$ 782,058
6	Depreciation & Amortization	133,545	62,724	196,269
7	Income Taxes	42,442	(42,392)	50
8	Operating Income	$ 94,416		$ (34,216)
9				
10	**Debt Service Coverage ("DSC")**			
11				
12	Operating Income	$ 94,416		$ (34,216)
13	Depreciation & Amortization	133,545		196,269
14	Income Taxes	42,442		50
15	Total	$ 270,403		$ 162,103
16				
17				
18	Interest Expense	$ 94,998		$ 94,998
19	Repayment of Principle	57,539		57,539
20	Refunds of AIAC during TY	43,000		43,000
21	Total Debt Service	$ 195,537		$ 195,537
22				
23	DSC	1.38		0.83
24				
25	DSC	1.77		1.06
26	(without consideration of AIAC refunds)			
27				

Valley Utilities Water Company
Financial Analysis
Using Staff Proposed Increase without ARSM

Exhibit 5
Witness: Bourassa
Page 2

Line No.		Sraff Proposed	Projected Arsenic O&M Expense Impacts	Staff Proposed With Arsenic O&M
1				
2				
3	Operating Revenues	$ 957,511		$ 957,511
4				
5	Operating Expenses	$ 673,955	$ 108,300	$ 782,255
6	Depreciation & Amortization	133,543	62,724	196,267
7	Income Taxes*	54,262	(54,212)	50
8	Operating Income	$ 95,751		$ (21,061)
9				
10	**Debt Service Coverage ("DSC")**			
11				
12	Operating Income	$ 95,751		$ (21,061)
13	Depreciation & Amortization	133,543		196,267
14	Income Taxes	54,262		50
15	Total	$ 283,556		$ 175,256
16				
17				
18	Interest Expense	$ 94,998		$ 94,998
19	Repayment of Principle	57,539		57,539
20	Refunds of AIAC during TY	43,000		43,000
21	Total Debt Service	$ 195,537		$ 195,537
22				
23	DSC	1.45		0.90
24				
25	DSC	1.86		1.15
26	(without consideration of AIAC refunds)			
27				

Valley Utilities Water Company
Calculation of the Arsenic Operating and Maintenance Recovery Surcharge Mechanism (AOMRSM)

Exhibit 6
Witness: Bourassa

Line No.			
1	Arsenic Operating and Maintenance Costs (1)	$	216,600
2			
3	Gallons Sold during Test Year in 1,000's (2)		258,740
4			
5	Arsenic Recovery Surcharge per 1,000 gallons (1) divided by (2) equals (3)	$	0.84

Meter Size	Class	Average Use	Present Rates	Proposed Rates	% Increase	AOMRSM (4)	Proposed Bill With ARSM	% Increase
5/8 Inch	Residential	9,251	$ 26.25	$ 29.75	13.33%	$ 7.77	$ 37.52	42.94%
3/4 Inch	Residential	10,134	32.74	36.54	11.61%	8.51	45.05	37.61%
1 Inch	Residential	19,749	59.55	66.70	12.01%	16.59	83.29	39.86%
5/8 Inch	Commercial	3,369	15.66	17.33	10.66%	2.83	20.16	28.74%
1 Inch	Commercial	38,207	98.05	114.29	16.56%	32.09	146.38	49.30%
1 1/2 Inch	Commercial	52,593	153.70	164.14	6.79%	44.18	208.32	35.54%
2 Inch	Commercial	158,299	415.26	463.07	11.51%	132.97	596.04	43.53%

(4) equals average use divided by 1,000 times (3)

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Income Statement
Analysis of Impact on Arsenic O&M Costs

Line No.		Rebuttal Adjusted with Rate Increase	Label	Adjustment	Results
1	**Revenues**				
2	Metered Water Revenues	$ 902,371			$ 902,371
3	ARSM Revenues		A	178,401	178,401
4	Unmetered Water Revenues	-			-
5	Other Water Revenues	41,791			41,791
6		$ 944,162		$ 178,401	$ 1,122,563
7	**Operating Expenses**				
8	Salaries and Wages	$ 214,213			$ 214,213
9	Purchased Water	-			-
10	Purchased Power	106,043			106,043
11	Chemicals	2,225			2,225
12	Arsenic Operating and Maintenance	-	B	216,600	216,600
13	Repairs and Maintenance	20,630			20,630
14	Office Supplies and Expense	30,348			30,348
15	Outside Services	5,382			5,382
16	Water Testing	4,014			4,014
17	Rents	71,493			71,493
18	Transportation Expenses	26,216			26,216
19	Insurance - General Liability	9,083			9,083
20	Insurance - Health and Life	58,498			58,498
21	Regulatory Commission Expense - Rate Case	30,000			30,000
22	Miscellaneous Expense	29,450			29,450
23	Depreciation Expense	133,545	C	62,724	196,269
24	Other Taxes and Licenses	17,612			17,612
25	Property Taxes	48,552			48,552
26	Income Tax	42,442	E	(42,392)	50
27		-			-
28	**Total Operating Expenses**	$ 849,746		$ 236,932	$ 1,086,678
29	**Operating Income**	$ 94,416		$ (58,531)	$ 35,885
30	**Other Income (Expense)**				
31	Interest Income	-			-
32	Other income	-			-
33	Income Tax Provision				-
34	Interest Expense	-	D	(92,902)	(92,902)
35	Other Expense	-			-
36	Gain/Loss Sale of Fixed Assets	-			-
37	**Total Other Income (Expense)**	$ -		$ (92,902)	$ (92,902)
38	**Net Profit (Loss)**	$ 94,416		$ (151,433)	$ (57,017)
39					
40	**(A)** Incremental Revenue from ARSM				
41	**(B)** Arsenic Treatment Operating and Maintenance				
42	**(C)** Depreciation on Aresenic Treatment Plant				
43	**(D)** Interest Expense on WIFA Loan				
44	**(E)** Change in Income Tax Expense				
45					
46					
47	**Debt Service Coverage ("DSC")**				
48	Operating Income				35,885
49	Depreciation & Amortization				196,269
50	Income Taxes				50
51	Total				232,205
52					
53	Interest Expense				$ 92,902
54	Repayment of Principle				57,539
55	Refunds of AIAC during TY				43,000
56	Total Debt Service				$ 193,441
57					
58	DSC				1.20
59					
60	DSC				1.54
61	(without consideration of AIAC refunds)				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Summary of Fair Value Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base
1		
2	Gross Utility Plant in Service	$ 4,303,069
3	Less: Accumulated Depreciation	1,391,574
4		
5	Net Utility Plant in Service	$ 2,911,495
6		
7	Less:	
8	Advances in Aid of	
9	Construction	3,180,500
10	Contributions in Aid of	
11	Construction - Net of amortization	323,598
12	Customer Meter Deposits	46,999
13	Deferred Income Taxes & Credits	-
14	Investment tax Credits	-
15	Plus:	
16	Unamortized Finance	
17	Charges	-
18	Deferred Tax Assets	-
19	Allowance for Working Capital	96,114
20	Citizens Acquisition Adjustment	-
21		
22	Total Rate Base	$ (543,488)
23		
24		
25		
26	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
27	Rebuttal B-2	Rebuttal A-1
28	Rebuttal B-5	
29		
30		
31		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 4,302,296	1	773	$ 4,303,069
3					
4	**Less:**				
5					
6	Accumulated				
7	Depreciation	1,391,574			1,391,574
8					
9	Net Utility Plant				
10	in Service	$ 2,910,722			$ 2,911,495
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	$ 3,180,500			$ 3,180,500
15	Contributions in Aid of				
16	Construction - Net	323,598			323,598
17					
18	Customer Meter Deposits	46,999			46,999
19	Deferred Income Taxes	-			-
20	Investment Tax Credits	-			-
21	**Plus:**				
22					
23	Deferred Tax Assets	-			-
24					
25	Working capital	99,686	2	(3,572)	96,114
26					
27					
28	Total	$ (540,689)			$ (543,488)
29					
30					
31					
32	SUPPORTING SCHEDULES:				RECAP SCHEDULES:
33	Rebuttal B-2				Rebuttal B-1
34	Rebuttal B-5				
35					
36					
37					
38					
39					
40					
41					
42					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Plant-In-Service
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.			
1			
2	Reclass Miscellaneous Expense to Office Equipment for Company Sign		
3	Per Staff Adjustment #1 on DRR-5		
4			
5	Conoaby Sign	$	773
6			
7			
8	Adjustment to Plant in Service	$	773
9			
10			
11			
12			
13			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Accumulated Depreciation
Adjustment Number 2

Exhibit
Schedule B-2 Step 1
Page 3
Witness: Bourassa

Line No.		
1		
2	Accum. Depr. Per Schedule B-2, Pages 2a-2f	$ 1,391,574
3	Accum. Depr. Per E-1 Schedule	1,533,754
4	Adjustment to Accumulated Depreciation	$ (142,180)
5		
6		
7		
8		
9		
10		
11		
12		
13		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Accumulated Amortization of CIAC
Adjustment Number 3

Exhibit
Schedule B-2 Step 1
Page 4
Witness: Bourassa

Line No.					
1	Computation of CIAC Balances				
2					
3	Balance at 12/31/1998 per Decision			$	417,416
4	Additions 1999				-
5	Balance at 12/31/1999			$	417,416
6	Additions 2000				3,365
7	Balance at 12/31/2000			$	420,781
8	Additions 2001				-
9	Balance at 12/31/2001			$	420,781
10	Additions 2002				73,317
11	Balance at 12/31/2002			$	494,098
12	Additions 2003				-
13	Balance at 12/31/2003			$	494,098
14					
15					
16	Computation of Accumulated Amortization CIAC Balances				
17					
18	Balance at 12/31/1998 per Decision			$	88,496
19	Amortization at composite rate	4.815%	1999		20,097
20	Balance at 12/31/1999			$	108,593
21	Amortization at composite rate	4.517%	2000		19,009
22	Balance at 12/31/2000			$	127,602
23	Amortization at composite rate	3.355%	2001		14,116
24	Balance at 12/31/2001			$	141,718
25	Amortization at composite rate	2.612%	2002		12,904
26	Balance at 12/31/2002			$	154,623
27	Amortization at composite rate	3.213%	2003		15,877
28	Balance at 12/31/2003			$	170,500
29					
30	Accum. Amortization Balance per Computation			$	170,500
31	Balance at End of Test Year				200,877
32	Adjustment to Accum. Amort. CIAC			$	(30,377)
33					
34					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Working Capital

Exhibit
Schedule B-5 Step 1
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	64,895
3	Pumping Power (1/24 of Pumping Power)		4,418
4	Material and Supplies Inventories		26,800
5	Prepayments		-
6			
7			
8	Total Working Capital Allowance	$	96,114
9			
10	Working Capital Requested per Co. Direct Filing		99,686
11			
12	Increase (decrease) in Working Capital Allowance	$	(3,572)
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	Rebuttal C-1	Rebuttal B-1	
17			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Label	Rebuttal Adjustment	Rebuttal Test Year Adjusted Results	Rebuttal Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**						
2	Metered Water Revenues	$ 785,774			$ 785,774	116,597	$ 902,371
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	41,791			41,791		41,791
5		$ 827,565		$ -	$ 827,565	$ 116,597	$ 944,162
6	**Operating Expenses**						
7	Salaries and Wages	$ 214,213			$ 214,213		$ 214,213
8	Purchased Water	-			-		-
9	Purchased Power	106,043			106,043		106,043
10	Chemicals	2,225			2,225		2,225
11	Repairs and Maintenance	21,743	3	(1,113)	20,630		20,630
12	Office Supplies and Expense	30,348			30,348		30,348
13	Outside Services	5,382			5,382		5,382
14	Water Testing	1,599	4	2,415	4,014		4,014
15	Rents	71,493			71,493		71,493
16	Transportation Expenses	39,015	5	(12,799)	26,216		26,216
17	Insurance - General Liability	9,083			9,083		9,083
18	Insurance - Health and Life	58,498			58,498		58,498
19	Regulatory Commission Expense - Rate Case	30,000			30,000		30,000
20	Miscellaneous Expense	46,526	6	(17,076)	29,450		29,450
21	Depreciation Expense	133,494	1	52	133,545		133,545
22	Other Taxes and Licenses	17,612			17,612		17,612
23	Property Taxes	48,258	2	293	48,552		48,552
24	Income Tax	(21,105)	7	27,388	6,283	36,158	42,442
25					-		-
26	**Total Operating Expenses**	$ 814,427		$ (840)	$ 813,587	$ 36,158	$ 849,746
27	**Operating Income**	$ 13,138		$ 840	$ 13,978	$ 80,438	$ 94,416
28	**Other Income (Expense)**						
29	Interest Income	-			-		-
30	Other income	-			-		-
31	Income Tax Provision	-			-		
32	Interest Expense	(92,902)	8	92,902	-		-
33	Other Expense	-			-		-
34	Gain/Loss Sale of Fixed Assets	-			-		-
35	**Total Other Income (Expense)**	$ (92,902)		$ 92,902	$ -	$ -	$ -
36	**Net Profit (Loss)**	$ (79,764)		$ 93,742	$ 13,978	$ 80,438	$ 94,416
37							
38	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
39	Rebuttal C-2					Rebuttal A-1	
40							
41							

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
		Depreciation	Property Taxes	Repairs and Maintenance Expense	Water Testing Expense	Transportation Expense	Miscellaneous Expense	
3	Revenues							-
5	Expenses	52	293	(1,113)	2,415	(12,799)	(17,076)	(28,228)
7	Operating							
8	Income	(52)	(293)	1,113	(2,415)	12,799	17,076	28,228
10	Interest							
11	Expense							-
12	Other							
13	Income /							
14	Expense							
16	Net Income	(52)	(293)	1,113	(2,415)	12,799	17,076	28,228

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	Subtotal
		Interest Expense	Income Taxes					
23	Revenues							-
25	Expenses		27,388					(840)
27	Operating							
28	Income	-	(27,388)	-	-	-	-	840
30	Interest							
31	Expense	92,902						92,902
32	Other							
33	Income /							-
34	Expense							
36	Net Income	92,902	(27,388)	-	-	-	-	93,742

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2 Step 1
Page 3
Witness: Bourassa

Line No.		
1	Property Taxes	
2		
3	Adjusted Revenues in year ended 12/31/03	$ 827,565
4	Adjusted Revenues in year ended 12/31/03	827,565
5	Proposed Revenues	944,162
6	Average of three year's of revenue	$ 866,431
7	Average of three year's of revenue, times 2	$ 1,732,861
8	Add:	
9	Construction Work in Progess at 10%	0
10	Deduct:	
11	Book Value of Transportation Equipment	29,253
12		
13	Total Book Value of Transportation Equipment	$ 29,253
14		
15	Full Cash Value	$ 1,703,608
16	Assessment Ratio	25%
17	Assessed Value	425,902
18	Property Tax Rate	11.13624%
19		
20	Property Tax	47,429
21	Tax on Parcels	1,122
22		
23	Total Property Tax at Proposed Rates	$ 48,552
24	Property Taxes in the test year	48,258
25	Change in Property Taxes	$ 293
26		
27		
28	Adjustment to Revenues and/or Expenses	$ 293
29		
30		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2 Step 1
Page 4
Witness: Bourassa

Line No.		
1	Repairs and Maintenance Expense	
2		
3	Staff Adjustment #1 per DRR-9	$ (1,113)
4		
5		
6		
7		
8		
9	Adjustment to Revenues and/or Expense	$ (1,113)
10		
11		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 4

Exhibit
Schedule C-2 Step 1
Page 5
Witness: Bourassa

Line No.			
1	Water Testing Expense		
2			
3	Staff Adjustment #2 per DRR-10	$	2,415
4			
5			
6			
7			
8	Adjustment to Revenue and/or Expense	$	2,415
9			
10	Supporting Schedule H-1, page 1		
11			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 5

Exhibit
Schedule C-2 Step 1
Page 6
Witness: Bourassa

Line No.		
1	Transportation Expenses	
2		
3	Staff Adjustment #3 per DRR-11	$ (12,799)
4		
5		
6		
7		
8		
9		
10	Adjustment to Revenue and/or Expense	$ (12,799)
11		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 6

Exhibit
Schedule C-2 Step 1
Page 7
Witness: Bourassa

Line No.			
1	Miscellaneous Expenses		
2			
3	Staff Adjustment #4A per DRR-12 Recruitment Fees	$	(4,850)
4	Staff Adjustment #4B per DRR-12 Directors Fees		(9,000)
5	Staff Adjustment #4C per DRR-12 Telephone Expense		(590)
6	Staff Adjustment #4D per DRR-12 Company Sign		(773)
7	Staff Adjustment #4E per DRR-12 High School Fund Raiser		(250)
8	Staff Adjustment #4F per DRR-12 Gym Expenses		(1,613)
9	Total	$	(17,076)
10			
11	Adjustment to Revenue and/or Expense	$	(17,076)
12			
13			
14			
15			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2 Step 1
Page 8
Witness: Bourassa

Line No.		
1		
2	Interest Expense	
3		
4	Remove Interest Expense to eliminate effect on revenue requirement	$ (92,902)
5		
6		
7		
8		
9		
10		
11	Adjustment to Revenue and/or Expense	$ 92,902
12		
13		
14		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2 Step 1
Page 9
Witness: Bourassa

Line No.									
1					2.70%		0.80%	7.65%	27.31
2		Annual Wages		Unempl base	State UE		Fed UE	Fed tax	Benefits
3	Bob Prince		68,900	7,000	189		56	5,271	18,81
4	Barbara Prince		31,200	7,000	189		56	2,387	8,52
5	Scott Keith		40,013	7,000	189		56	3,061	10,92
6	Matt Prince		52,000	7,000	189		56	3,978	14,20
7	Lisa Mycke		22,100	7,000	189		56	1,691	6,03
8	Total		214,213	35,000	945		280	16,387	58,49
9									
10									
11									
12									
13									

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	24.04%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	31.01%
9		
10	Operating Income % = 100% - Tax Percentage	68.99%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.4495
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rebuttal A-1
20		